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C O N F I D E N T I A L SECTION 01 OF 04 MANAMA 000503

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TAGS: [ECON](#) [PGOV](#) [KISL](#) [BA](#) [ECTR](#) [POL](#)
SUBJECT: ISLAND OF PLEASURE? TOURISM CLAMPS TARGET LOW END
OF MARKET

Classified By: Ambassador William T. Monroe for reasons 1.4 (b) and (d)
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Summary

¶1. (SBU) Two Ministry of Information Tourism Directorate circulars closing low-end nightclubs and restricting the sale of alcohol in certain locations entered into force recently, impacting 85 two- and three-star hotels. Critics complain that the clubs primarily served as a front for organized prostitution. Affected hotel owners have reacted angrily as their occupancy rates plummeted from 90 to 40%. These hotels derived 70% of total income from their clubs. A business leader told EmbOff that the Bahrain Chamber of Commerce and Industry supports upgrading the tourism sector but opposes such a sudden move, and he argued in favor of a multi-year transition period. A hotel owner accused the government of trying to appease the Islamist blocs in parliament. The high-end of the market continues to boom as the government received 48 applications for four- and five-star hotels, 15 of which are already under construction. The economic impact of the restrictions is likely to be marginal, but the political impact could be more serious, depending upon how forcefully parliamentarians push the issue. End Summary.

Restrictions Hit "Island of Pleasure"

¶2. (U) Bahrain, which marketed itself as the "Island of Pleasure" at the early May Arabian Travel Market exhibition in Dubai, recently implemented new orders restricting some restaurants and hotels, mostly at the low-end of the market, from offering Arabic-oriented dance shows and alcohol. The Ministry of Information's Tourism Directorate issued two circulars in November 2006 impacting the tourism industry. The first ruled that permits previously issued to hotels to stage "Arabic and foreign musical shows" were no longer valid as of March 4, 2007, later extended to April 15. The second stated that as of May 1, 2007, bars and nightclubs in hotels and restaurants located in "residential areas or near schools and mosques" would be banned from serving alcohol. Five-star hotels were exempted from the directives as were four-star hotels located in tourist and commercial zones. The circulars were both signed by Acting Assistant Under Secretary for Tourism Affairs Fawzi Touleifat, and were

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issued at a time when Minister of Information Mohammed Abdul Ghaffar was outside the country. According to official statistics, more than half a million tourists enter Bahrain each month, over 90% of whom come via the causeway from Saudi Arabia.

13. (U) Local hotel owners have clarified to EmbOffs that the circulars were intended to address two specific segments of the tourism industry. The first is clubs housed in two- and three-star hotels normally frequented by visiting Gulf Arabs featuring bellydancers and bands playing Arabic music. The circular uses the Arabic term "margas," which best translates as dance hall, as opposed to clubs or discos, which play Western music and cater to a range of audiences. Critics complain that the shows at the dance halls primarily serve as a front for organized prostitution, with the women "dancers" offering to visit clients in their rooms. The second circular targeted restaurants, bars, and clubs located in the midst of residential areas. An industry leader said that the first directive was being implemented in a somewhat selective way, with ministry inspectors focusing mostly on clubs where patrons and women presumed to be prostitutes loiter in the streets in the early morning hours. He said that the government had not yet tried to follow up implementation of the second directive. According to press reports, approximately 85 hotels have been impacted by the measures.

The "Talibanization" of Bahrain?

14. (SBU) Affected hotels owners have reacted angrily. Ahmed Sanad, President of the Bahrain Society of Hotel and

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Restaurant Owners (BSHRO) and General Manager of the Zubara Hotel, complained to Pol/Econ Chief that "this is just the first step" of the Talibanization of Bahraini society. Sanad and his colleagues Ahmed Al Alawi, Operations Manager of the Middle East Hotel, and Majeed Adeeb, Managing Director of the Half Moon Hotel, said that their occupancy rates had plummeted from 90 to 40% even though they dropped room rates from BD 15-17 (\$40-45) to BD 8 (\$21) per night. Before the imposition of the new regulations, the hotels derived 70% of their total income from the clubs. The situation is so severe, Adeeb said, that he laid off most of his 45 employees, 15 of whom were Bahraini, and he recently sold a plot of land to keep his business liquid.

15. (SBU) Nabeel Kanoo, who is the head of the Bahrain Chamber of Commerce and Industry's (BCCI) Tourism Committee, said that his organization supports improved zoning to keep commerce, including hotels and restaurants, out of residential areas. He acknowledged that the government in the past had given licenses for hotels and restaurants to be built anywhere. But the BCCI does not support a sudden change in the rules after people had invested millions of dollars in their facilities. He had proposed a transitional period of at least one year, and ideally three to five years, for hotel owners to upgrade their properties and decrease their dependence on nightclubs. The Tourism Directorate gave them less than six months, which was insufficient, in his view.

16. (C) BSHRO President Sanad accused Information Minister Abdul Ghaffar of being responsible for the directives, claiming that Abdul Ghaffar is sympathetic to the policies of the Muslim Brotherhood organization in Bahrain. (Note: We have heard this claim before.) He said Abdul Ghaffar had directed Acting Assistant Under Secretary Touleifat to issue the circulars so that Abdul Ghaffar would not be directly responsible for them, knowing they were controversial. Sanad told the press that the restrictions were "an attempt to appease the Islamist blocs in parliament." (Note: The BSHRO

filed a court case against the orders, saying an acting assistant under secretary does not have the authority to issue directives. The case is pending, and there are indications that Touleifat might be willing to negotiate the details of the restrictions in return for BSHRO withdrawing the case.)

"Protecting Society" with Alcohol Limitations

¶7. (U) In fact, the two major Sunni Islamist blocs in the elected lower house Council of Representatives, Al Asala, a Salafi group, and Al Minbar, which is associated with the Muslim Brotherhood, for years have urged the government to clean up the tourism sector, even going so far as to say that alcohol should be banned in the country. Although they have yet to take action to ban alcohol outright, on May 29 MPs voted unanimously on an "iqtirah bi qanoon" (proposed law) to prohibit the sale of alcohol at social and civic clubs. Al Asala MP Ibrahim Busandal pointed out that "we are not speaking about alcohol in general, we are speaking about establishments that should be protecting society." (Note: Clubs popular with Western expatriates, such as the British Club, the Rugby Club, and the Dilmon Club would be impacted by this measure, should it clear the remaining hurdles in the government and parliament.)

¶8. (U) Islamist MPs point to family, or "clean," tourism as representing the future for Bahrain's hotel industry. Busandal told the press, "We have to promote Bahrain, but not as another Bangkok. We are an Islamic country and have our own culture and rules. We do not want tourism at the cost of that. The tourism we are looking for is one at the highest levels, where families come because of the country's history, traditions, and climate." An advisor at the Information Ministry who just completed a Ph.D. on the topic said that Bahrain should promote cultural tourism, including a focus on traditional handicrafts. Touleifat told the press that the Tourism Directorate would help develop a tourism "oasis" featuring a desert encampment, traditional band, luxury tents, camels, falcons, and crafts.

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Efforts to Upgrade Tourism

¶9. (U) At the government's request, the UN World Tourism Organization (UNWTO) participated in a two-day seminar on hotel development May 14-15. UNWTO technical cooperation official James Yoo said the aim of the conference was to increase awareness among government officials, hoteliers, and investors of best practices and current trends in the industry. The seminar also endeavored to create an understanding of the skills required to achieve international standards of excellence in establishing and managing hotels. Yoo said the UNWTO would work with the government and local industry to develop a new hotel classification system that would provide information to tourists on what they can expect from different classifications of hotels, as well as provide hoteliers with a clear perspective on what services and facilities they should offer. The BCCI's Kanoo commented that this is just the sort of practical information the industry needs to develop further.

¶10. (U) In fact, there has been quite a bit of high-end tourism development in Bahrain. The press reported that the government had received 48 applications for four- and five-star hotels, 15 of which are already under construction. There are several high-profile development schemes like Durrat Al Bahrain, Al Amwaj, and Riffa Views that feature hotels, villas, and apartments for wealthy customers. In May, Singapore-based Banyan Tree Hotels and Resorts, a high-end resort operator, opened its first property in the

region, a \$170 million development that will have a total of 156 luxury villas. It is a key part of Gulf Finance House's \$1 billion Al Areen development. Another component of Al Areen is the \$50 million Lost Paradise of Dilmon Water Park, which is scheduled to open in August and aims to attract 300,000 visitors per year. In two prominent cases, the Banyan Tree project and the new Four Seasons Hotel being built at Al Amwaj, Islamic financial institutions are providing the capital, Gulf Finance House for Banyan Tree and Arcapita for the Four Seasons. These investments must conform with Islamic principles, including not serving alcohol or pork.

Economic Impact Likely Marginal

¶11. (U) Those opposed to the Tourism Directorate's restrictions complain they will harm Bahrain's economy. A senior banker told the Ambassador that sales of luxury items such as chocolates and flowers were down 10% since the imposition of the restrictions. BSHRO president Sanad told the press that "the effect of the decisions will not be limited to hotels. The whole market in Bahrain will be affected." Hotel owner Hussein Al Mozawib said publicly that Bahrainis working in the tourism sector and related industries would be harmed. Shaikh Mohammed bin Abdul Rahman Al Khalifa, who owns three hotels, told the press that the restrictions would likely impact food and beverage suppliers, taxis, and property owners, causing a ripple effect on the economy. Businessman Adel Fakhro told P/E Chief that closing down the clubs harms the investment climate, particularly as Bahrain competes with well-funded regional adversaries like Dubai and Qatar.

¶12. (SBU) Others dispute this analysis. Kanoo described indicators pointing to the health of the economy and tourism sector. The average price of land in the country continues to rise, the April Formula One racing event "was packed," and he detects no slowing in the retail sector. Jassim Hussein, a Bahrain University economist and member of parliament representing Shia opposition political society Al Wifaq, told P/E Chief that tourism's contribution to the economy (as represented by income generated by hotels and restaurants) is relatively low. According to Central Bank of Bahrain statistics, in 2005 hotels and restaurants earned BD 106 million (\$281 million), amounting to 2% of total GDP. In Hussein's view, only a small percentage of the BD 106 is generated by the types of hotels and nightclubs affected by

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the government restrictions. Thus the overall impact on the economy will be minimal. And, he pointed out, the drinking, dancing, and other activities can still go on, but behind closed doors. The Central Bank estimated total employment in the sector in 2005 to be 7,000 people, of whom 25% (1,788) were Bahraini and 75% (5,215) were foreign. Among the Bahrainis, 85% (1,519) were men and 15% (269) were women. Among the foreign workers, 77% (4,030) were men and 23% (1,185) were women.

Comment

¶13. (C) While certainly harming low-end hotel owners and those who work in the hotels, the new restrictions have a greater political impact than economic. The imposition of the restrictions could be a savvy move to appease members of parliament who, if permitted to do so, would push much further, or it could represent just the first of many steps to "clean up" a sector often at odds with a strict interpretation of Islamic principles. The Council of Representatives' May 29 vote, which needs to be approved by the Cabinet, the upper house Shura Council, and the King before it would have the force of law (an unlikely

occurrence), shows the mood of the elected deputies. Even those MPs committed to attracting foreign investment and preserving Bahrain's open society felt compelled to vote in favor of banning alcohol at social clubs, so they are not seen by their constituents as un-Islamic. The government retains a great deal of legislative power, and the appointed Shura Council and government should be able to constrain the more puritanical impulses of the lower house. The longer term question hinges on how forcefully MPs push the issue and the government's commitment to retaining an industry that is unique and often at odds with prevailing conditions in the region.

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